

**Markets Companies**

The curious case of Constellation Health and Blackstone's former top deal maker



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By: **Alexandra Scaggs**

Who knew that a [spelling mistake \(http://www.investigate.co.uk/constellation-health--cht-/rns/acquisition/201609230700076191K/\)](http://www.investigate.co.uk/constellation-health--cht-/rns/acquisition/201609230700076191K/) would lead us down a path to accusations of self-dealing, a Sidney Lumet film, and a mental hospital?

This is a rather convoluted story that begins back at the end of September, when **Constellation Healthcare Technologies, Inc**, an American supplier of medical billing systems quoted on the AIM market in London, announced the acquisition of something called VEGA Medial Professionals LLC.

Medial Professionals?? Medical Professionals, surely. Except however you spelt it, VEGA Medical/Medial Professionals LLC didn't seem to have a digital history, which seemed odd. Even if this was a relatively small deal, pre-acquisition Google gave us no results at all.

So enquiries were made. Corporate financiers were phoned, PRs were pestered. And yes, "Sorry!", there had indeed been a spelling mistake.

At which point another question arose. The relevant LLC entity, VEGA Medical Professionals, had only been registered in Delaware on February 2 — just seven months before the Constellation takeover news.

This jarred slightly with statements from Constellation, [namely... \(http://www.investigate.co.uk/constellation-health--cht-/rns/acquisition/201609230700076191K/\)](http://www.investigate.co.uk/constellation-health--cht-/rns/acquisition/201609230700076191K/)



In the year to 31 July 2016 VEGA generated revenues of \$15.6 million with underlying EBITDA of \$0.8 million and had net assets of \$2.9 million as at that date. The directors anticipate that the synergies between the two businesses will result in at least \$7.0 million of additional EBITDA on a proforma basis being achieved in the first 24 months of ownership.

It seemed a bit odd to use the phrase “year to” if the entity hadn’t actually existed for a full 12 months. And this VEGA deal also seemed to have striking similarities with one or two other acquisitions undertaken by Constellation since it had listed in London in December 2014.

Seven months earlier, for instance, Constellation had acquired MDRX Medical Billing LLC for \$28m (<http://www.investegate.co.uk/constellation-health--cht-/rns/acquisition-of-mdrx-medical-billing-llc/201602100700075847O/>) (with an option for \$2m more). The business was also registered in Delaware, America’s favourite corporate haven, just two months before news of its takeover.

What was going on? Well, the company’s strategy has been to acquire companies that provide billing, scheduling, technology and other back-office services for physicians. It’s a fragmented industry, seemingly ripe for consolidation.

Constellation was buying up lots of small medical billing businesses, injecting them into freshly-minted Delaware holding companies and then injecting these into the publicly-listed parent.

There were questions to be answered here around transparency and prices paid. For instance: who owned the Delaware entities immediately before Constellation took them over? And how much had the Delaware entities paid for the underlying operating businesses?

Getting clear answers from Constellation’s chief executive and major shareholder Paul Parmar was proving difficult, if only because he needed to retain much of the requested detail confidential on behalf of various “mom & pop” vendors.

But then the matter suddenly became academic to anyone concerned that publicly-quoted businesses are being properly run: [on November 25 Constellation announced it was going private \(http://www.investegate.co.uk/constellation-health--cht-/rns/recommended-acquisition/201611250700061554Q/\)](http://www.investegate.co.uk/constellation-health--cht-/rns/recommended-acquisition/201611250700061554Q/).

The thinking was, the consolidation of all these little medical billing firms would be better handled away from the public markets. A private-equity firm called CC Capital

Management, with the help of a credit facility from Bank of America Merrill Lynch, would supply the necessary finance. Shareholders in London were offered a way out with \$2.93 per share in cash and a stub-like promissory note.

The take private deal was due to complete today — Thursday, Jan 26. Except it didn't.

A short statement [simply said \(http://www.investigate.co.uk/constellation-health--cht-/rns/suspension-of-trading/201701260801231807V/\)](http://www.investigate.co.uk/constellation-health--cht-/rns/suspension-of-trading/201701260801231807V/) certain conditions had not been met in time.

But court documents from last month might provide some insight here.

At the end of December, a shareholder filed a [lawsuit against Constellation Health and Mr Parmar \(http://courthousenews.com/wp-content/uploads/2016/12/constellation.pdf\)](http://courthousenews.com/wp-content/uploads/2016/12/constellation.pdf), claiming the company was formed as “a sham, created to siphon assets... into the pocket of Parmar,” according to a court filing.

Destra Targeted Income Unit Investment Trust, on behalf of the holders of Constellation units, have accused Parmar of self-dealing:

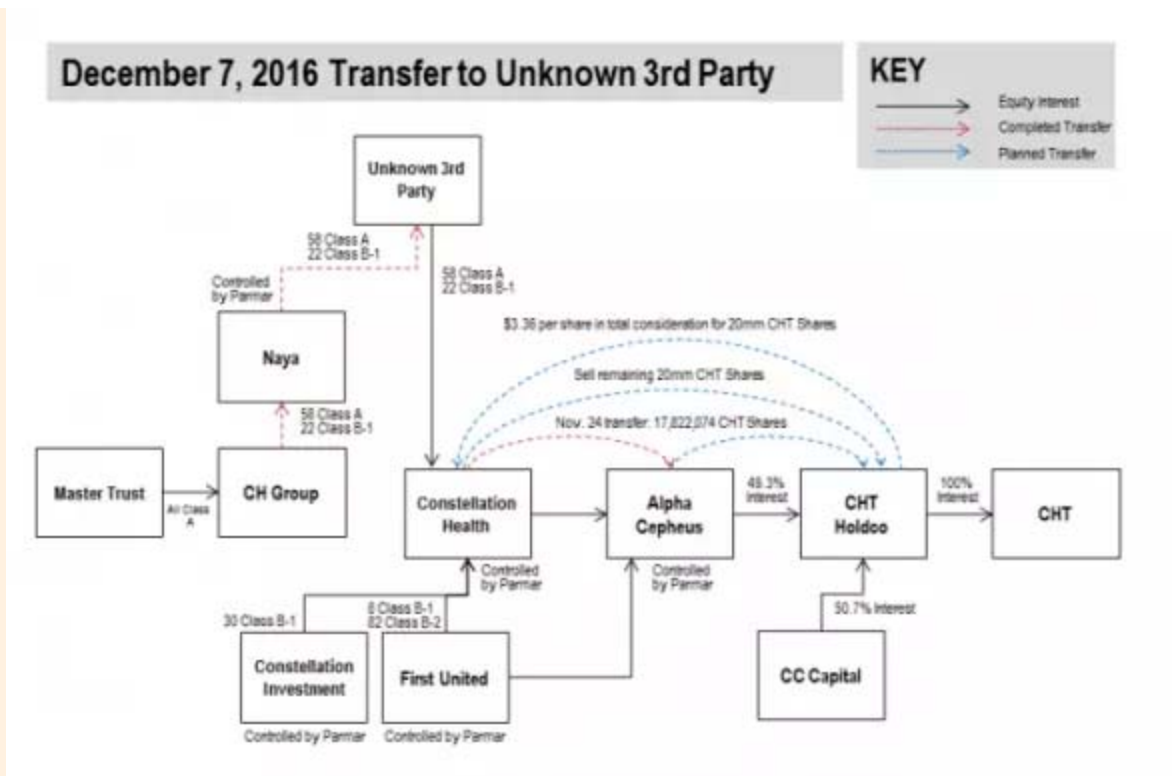
“

Paul Parmar, however, has diverted these CHT Shares, and other interests representing the CHT Shares, to himself, through a series of at least three sham corporate transactions by and among a labyrinth of Delaware limited liability companies that he forms and/or controls.

Destra claims that Parmar acquired a private healthcare company (which eventually became Constellation) in 2012 as part of a joint business venture with Southport Lane Management, a PE firm run by financiers, Alexander Chatfield Burns, Joel Plasco, Andrew Scherr and others.

But in 2014, Destra says in its court complaint, Southport founder “Burns checked himself into a mental health ward, leaving behind an affidavit detailing ‘unusual transactions.’” Then things went south at Southport — at which point, Destra claims, “Parmar and what was left of Southport... conspired to place their interests in CHT beyond the reach of” creditors.

The complaint is complex and laid out in excruciating detail. But this diagram might help, and you can [peruse the filing for more detail \(http://courthousenews.com/wp-content/uploads/2016/12/constellation.pdf\)](http://courthousenews.com/wp-content/uploads/2016/12/constellation.pdf), if you'd like:



The company has declined to comment on the complaint, simply saying that a fresh statement will be made in due course. The fate of the plan to move private is unknown.

But while we wait for more clarity, let's look at more detail of what we do know about Mr Parmar...



Ownership of Constellation has been a puzzle for some time.

For instance, in the [annual report for the year ended Dec. 31, 2015](http://www.constellationhealthgroup.com/investor/news-docs/Posting%20Of%20Annual%20Report%20and%20Accounts%203%20June%202016.pdf) (<http://www.constellationhealthgroup.com/investor/news-docs/Posting%20Of%20Annual%20Report%20and%20Accounts%203%20June%202016.pdf>) (page 15 if you're following along at home), Mr Parmar is listed as owning 58 per cent of the company's shares. Except the accompanying notes say that he doesn't actually own them, but manages the stock on behalf of unnamed beneficiaries instead. And those beneficiaries do not include Mr Parmar or his family.

When investing in this kind of acquisitive company with a perplexing ownership structure, it's doubly important to vet management carefully, says Aswath Damodaran, a corporate finance professor at NYU Stern.

"The problem is, they're so opaque," he said. "Whenever you're buying into a company like this, you're buying into the credibility of the management."

Mr Parmar himself, it must be said, is quite a colourful character, who also goes by the name Parmjit Singh Parmar.

He was a [highly publicised](http://www.wsj.com/articles/SB10001424052970203388804576617173383075208) (<http://www.wsj.com/articles/SB10001424052970203388804576617173383075208>) big spender after the financial crisis and later suffered a very public foreclosure on his 32 acre New Jersey compound.

He also ran Funky Buddha Productions, which has a production credit on "[Before the Devil Knows You're Dead](http://www.imdb.com/title/tt0292963/combined)" (<http://www.imdb.com/title/tt0292963/combined>), a Sidney Lumet film starring Philip Seymour Hoffman and Marisa Tomei.

(A co-producer on that film, David Bergstein, [was arrested on fraud allegations](http://www.hollywoodreporter.com/news/producer-david-bergstein-arrested-26m-fraud-946071) (<http://www.hollywoodreporter.com/news/producer-david-bergstein-arrested-26m-fraud-946071>) in November last year. Bergstein, who has [pleaded innocent](https://www.sec.gov/litigation/complaints/2016/comp-pr2016-235.pdf) (<https://www.sec.gov/litigation/complaints/2016/comp-pr2016-235.pdf>) in the fraud case, once accused Mr Parmar of [recording their phone conversations](http://www.hollywoodreporter.com/thr-esq/new-david-bergstein-lawsuit-references-522424) (<http://www.hollywoodreporter.com/thr-esq/new-david-bergstein-lawsuit-references-522424>) and threatening to release them unless Mr Parmar was paid \$5m, according to court documents. Mr Parmar contested the allegation and claimed Bergstein knew he was being recorded. In any event, the two men later reached a settlement agreement, the details of which have not been publicised.)

A strange [WordPress site about him](https://parmarpaul2.wordpress.com/) (<https://parmarpaul2.wordpress.com/>) says the following:



Paul Parmar is a professional and Institutional Investor from New York who has far-reaching experience of more than 20+ years in investing and managing Healthcare

Services companies. He is a self-made multi-millionaire in the United States. He is the man who is gifted with exceptional mental abilities and inventive skills.

Paul Parmar holds over 13 years of experience at managerial, executive and planning levels in 500 fortune companies. He is also an active investor in Insignia Investment Management Group, Insignia Wealth Management Group, Funky Buddha Media, Illusions, Inc., JetNetwork and JetFirst, Air Support, LLC and TADS, and International Imaging Network. He is a Director of Beyond Luxury Watch Boutique Pvt. Ltd., Physicians Practice Management, and MDTablet, LLC.

When asked for comment about the site, Mr Parmar said through his attorney that he does not control the site, and is “actively investigating ways to have the web site which contains false and misleading information deactivated.”

But two companies on that list stick out nonetheless.

Mr Parmar’s involvement in Jet Network and Jet First eventually led to a civil-court judgement totalling \$93m in Florida against him and four other entities, as the result of a lawsuit from one of his business partners in the concern. The judgement is currently being challenged, and a hearing is scheduled for February 21.

Jet Network’s bankruptcy trustee also said the company “made certain payments via wire transfer... upon the express orders of Parmar” that weren’t repaid, according to court documents.

Parmar’s attorneys didn’t respond to a question about the trustee’s finding, but said this in response to our question about the \$93m judgement:

“

Mr. Parmar is extremely confident that the judgment will be vacated and that the will be [sic] litigation dismissed.

Meanwhile, it seems the foreclosure saga for Mr Parmar’s \$23m compound isn’t over, either.

Deutsche Bank assigned the mortgage to an entity called Aquila Alpha LLC in March of 2016, according to a foreclosure complaint filed on 4 Nov 2016.

Aquila filed the complaint against Parmar, seeking the full amount of the principal and interest accrued on that mortgage, according to documents obtained from the Chancery Division of the Superior Court of New Jersey in December. The firm claimed in the complaint that Parmar failed to make required payments from January through May.

Parmar hasn't responded to requests for comment on the foreclosure filing, either.

If you've got this far you might be wondering about the **Blackstone chap** featured in the headline!

His name is **Chinh Chu**. He's on the left here, with Prince Edward and Zakiya Khatou-Chevassus, the boss of yacht charter firm Carte Blanche International...



If the cat's cradle of corporate entities and generalised opacity across Constellation's operations could be seen as a red flag to potential investors and financial journalists alike, one aspect of this story offered comfort: the identify of the person largely funding the move to private ownership. (CC Capital would own 50.7 per cent under the merger agreement, according to the Delaware filing.)

Until his departure, a little over a year ago, Chu ranked as Blackstone Group's longest-serving deal-maker. Joining the private equity firm in 1990, he rose to the position of Senior Managing Director and Co-Chairman, becoming [a billionaire \(http://www.bornrich.com/chinh-chu.html\)](http://www.bornrich.com/chinh-chu.html) in the process.

When Chu, who fled Vietnam with his family as a child, left Blackstone, Steve Schwarzman sent a memo to staff:

“

I remember hiring Chinh out of Salomon Brothers, when he was only a year and a half out of school...He had an unstoppable will to win with great ethics, intelligence and fortitude. This is sad news for me personally and for the firm as a whole.

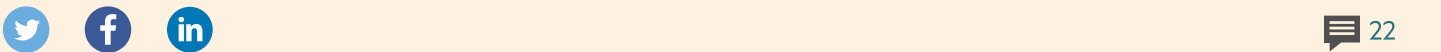
Chu had led multiple multi-billion-dollar acquisitions at Blackstone. His experience of serious M&A due diligence is quite possibly unrivalled, globally.

What's more taking Constellation private is/was Chu's first deal for his own newly-created family office.

If anyone is/was in a position to kick Parmar’s proverbial tyres, it was Chu. We must assume he knows what he’s doing.

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MARCH 9, 2018 By: FT Alphaville

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BritCaNotCPA

Oct 25, 2017

Here are all the steps a company should take to undertake a fair process, clearly Parmar with his colorful and highly litigious background along with Mr. Chu with reputation of overpaying bankers and attorneys and underpaying shareholders have managed to undermine the process and delivered a substantially lower price for the shareholders

1. Did Parmar get any separate, additional consideration for becoming part of buyers group.
2. Internal exercise prior to start - General Valuation by market check – Failed - The market multiple for any healthcare services and technology companies larger than 50m in revenue is 4.5+ X revenue or 11+X EBITDA, this

transaction was done at under 2X revenue and 5.5X EBITDA so at a 60% discount using either Revenue multiple or EBITDA multiple

3. Did the company appoint a fair and independent Special Committee with all the powers to negotiate and execute the transaction without any influence from Parmar & Chu ?
4. Did the company declare the key management Including Parmar and his shareholders as a part of buyers group and separate them from the workings and details of the transaction and its work papers
5. Did Special Committee and independent advisors remain independent ? did they recieve any additional consideration for approving this transaction ?
6. Did the Special Committee hire independent advisors that Parmar and Chu have no influence over
7. Did the Special Committee hire a Valuation firm, did they hire a advisor to give a fairness opinion ?
8. Did this transaction receive a fairness opinion (I would not believe at a 60% discounted sale price by either method of revenue multiple or EBITDA multiple) this transaction could ever receive a fairness opinion
9. Why did the Special committee agree to a breakup fee in the Go Shop ? with a massive breakup fee it is not really a true Go Shop ? this has unethical and improper written all over it.
10. Were there any bids in the Go Shop ? if yes why were they rejected ?
11. A major acquisition was closed in March, less than 30 days from CC Capital transaction, which implies the diligence and all the work was done on London Shareholders time and expense, and Parmar & Chu are reaping the benefits of that acquisition ?

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Feb 3, 2017

Would be interesting to know who Destra got their money from? IE who funded Parmar initially?

[Report](#) [Share](#)[Recommend](#) | [Reply](#)**Upaswellasdown**

Jan 31, 2017

Just got to this late - absolutely superb. Makes me FT subscription seem like a bargain (incidentally I also donate to Roddy at SIRF).

That Wordpress blog is the weirdest website I've ever seen.

[Report](#) [Share](#)2 [Recommend](#) | [Reply](#)**EmpressMB**

Jan 31, 2017

Standout work Alexandra!! One of the best pieces of detailed investigative journalism I've read in a while.

[Report](#) [Share](#)[Recommend](#) | [Reply](#)**Kristov**

Jan 27, 2017

Since we're talking about opaque LLC's, kindly note the new President of the United States' LLC empire, as disclosed to the Federal Election Commission: (there are a dozen sheets in the workbook, please tab through).

https://docs.google.com/spreadsheets/d/1pcGitimzMCsZ_DnnOZFQswywjcuimWQ90qAFsoHj6Y/edit#gid=93294644

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Donald Cheese puff

Jan 28, 2017

Thats just plain showing off! I think the interesting thing in Parmars case is that they are all set up in Delaware. The US waged war on the Caymans etc and yet have one of the worlds largest tax havens in their backyard.

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Kristov

Jan 28, 2017

@**Donald Cheese puff** yes there's that hypocrisy too re delaware. you know what they say about capital? it belongs to the owners....."golden rule of wall street" and all.

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Student

Jan 27, 2017

Excellent piece. Makes the subscription worthwhile.

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Donald Cheese puff

Jan 26, 2017

Is the deal unravelling?

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Paul Murphy FT

Jan 26, 2017

@**Donald Cheese puff** Dunno. Statement expected in the morning.

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Donald Cheese puff

Jan 26, 2017

You didn't mention CFCO - perfect vehicle to take CHT onto Nasdaq

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Paul Murphy FT

Jan 26, 2017

@**Donald Cheese puff** ??

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Jan 26, 2017

<http://seekingalpha.com/news/3184248-largest-ever-blank-check-ipo-tap>[Report](#) [Share](#)[Recommend](#) | [Reply](#)**Paul Murphy**

FT

Jan 26, 2017

@Donald Cheese puff So the stated rationale for taking it off the lightly regulated AIM market in London is that the hoovering up of these small medical billing companies is better done off the public markets. On investor calls with London people Chu has said that he's doing this as his first family office deal. Whether that involves a subsequent float in the US, no idea.

I'd also add that since Parmar has been involved in a lot of litigation etc in the past, you'd assume Chu is looking through all that -- at the opportunity afforded by the underlying sector. But that's just my speculation.

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Jan 26, 2017

I like his blog

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Jan 26, 2017

Great journalism ft/ Alexandra!

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Jan 26, 2017

@hedgehog Agreed!

[Report](#) [Share](#)1 [Recommend](#) | [Reply](#)**ActOfWill**

Jan 27, 2017

@Brutto @hedgehog +1

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